

October 15, 2018

Good Evening City Councilmembers and members of the community, both here tonight and at home. I am excited this evening to present to you, the 2019 Preliminary Budget for the City of Issaquah.

I have intentionally prepared this Preliminary Budget as a “maintenance budget,” as we await the adoption of the Strategic Plan in 2019. It is critical that we continue to build upon our commitment to financial stewardship as we look to align future budget decisions with community goals over the next five years, and a key piece of that work will be to directly link budget proposals to key strategic plan priorities. This year’s work on the strategic plan tees up our city for that important transition as we plan next year for our 2020 Budget.

In this maintenance budget, I am proposing we hold the line on new initiatives until the adoption of the strategic plan, but still present a reality-based budget.

There are many competing and pressing needs that all cities should consider, especially one like Issaquah that is growing, urbanizing and modernizing. It is critical we make wise choices on how to allocate resources. We need to take care of what we have but also find ways to meet growing needs.

In my first year as Mayor, the budget development process made it quite clear that we have two top investment priorities: people and tools. Simply put, our city delivers services to the community, and the efficiency and effectiveness of those services depend on having the tools and resources to deliver them.

Yet our staffing levels are still below where they were prior to the Great Recession in 2008, nearly 10 years ago, even though our community has grown nearly 40% since then. So, as population growth has put further pressure on demand for services, we have fewer staff to meet that demand. In other words, we are doing far more with far less. It is unsustainable, without ongoing reductions in our city service levels.

In addition to population growth and increased demand for services, the City has assumed infrastructure from new development or re-development. That infrastructure includes roads, utilities and parks built by developers and turned over to the City. We have assumed the maintenance and operations expenses that go along with new developments and we have not allocated additional resources or identified increased revenues to cover these additional ongoing maintenance and operational expenses.

We need to invest appropriately in order to meet these growing demands.

And before I move into a deeper dive on the 2019 Preliminary Budget, I would like to share exciting news with you tonight, by looking back on the projects of 2018, and the impact that they have had on neighborhood character, transportation, community engagement and government transparency.

Preserving our neighborhoods is a priority. New development codes for Central Issaquah, the Highlands and Talus provided more prescriptive language to guide development to meet the community and the neighborhoods' expectations. These new codes have provided some muscle to handle the future development and re-development occurring in town.

We also focused on traffic calming in established neighborhoods to discourage cut-through traffic and speeding, because these driving behaviors negatively impact our neighborhoods. Council also supported enhanced police enforcement to address inappropriate driving behaviors, and to take back our streets from those that speed, block intersections, etc.

Our residents also benefitted from expenditures to improve Central Park and the Community Center, providing outstanding opportunities for recreation and enjoyment of our amazing outdoors and community facilities.

We are making progress on our transportation needs. Thanks to an aggressive schedule to complete a suite of projects including the under-crossing of I-90 around the Costco development. These roadways and trails on the north side of I-90 are scheduled to be opened by January of 2019. They will provide improved local mobility options for residents and businesses, as SE 4<sup>th</sup> will again connect the north and south sides of the freeway. The completion of the design of the SE 43<sup>rd</sup> Way intersection improvements and the design work on two sections of our longest unimproved arterial, Newport Way, are important investments in the network.

I am excited about the work we did this year to focus on community engagement and government transparency. I think we can all be proud of the broadcasting of additional citizen board and commission meetings this year, and over 30

community meetings that were hosted so far in 2018. Investment in technology and staffing approved last year, made this all possible.

There was much more work completed and underway this year, but this short list was meant to provide an example of the positive impacts of the council investment in projects and programs approved for this current year.

I also want to mention two other important current conditions that impact our future; and these are that we are still experiencing a strong local economy, in a region that is growing. From our City's own financial perspective, we have a healthy ending fund balance, which can be used to complete projects that add value and benefit to our community. This position gives us some latitude to think about how to use one-time resources to pay for infrastructure needs but also compels us to look at how to meet current and future maintenance and operational demands with available resources. So personally, it would be similar to having money in a 401K and a savings account, and still needing income to pay the monthly mortgage and to buy a car.

So now let's look at the financial realities we are facing.

While we are stable and there is no looming financial crisis, we need to acknowledge our funding limitations and tackle them head on. We are not meeting the challenge of funding our capital needs and our ongoing operating expenses. In a nutshell, we have a healthy cash bank account, but we do not have a plan to deal with our capital and operating funding shortfalls going forward and into the future.

We see relatively moderate forecasted revenue growth in 2019, which is not keeping pace with our growing community, and poses significant challenges for our community and our city.

The 2019 Preliminary Budget does two things: plans our ongoing expenses around ongoing revenue sources and recognizes the healthy ending fund balance could also be utilized in part to fund some limited one-time expenses. It also comes with an air of restraint, and a challenge to all of us to work together in 2019 to develop strategies to address the gaps in both operating and capital expenditures and ongoing revenue sources.

In light of that, I would like to outline how our budget adoption process has been determined and how resources were identified for the 2019 Preliminary Budget recommendation.

Some aspects of this year's budget process are new.

First, I submitted a Budget in Brief document to the Council and community in advance of the delivery of the draft Preliminary Budget.

Second, I plan to focus budget presentations on those items of the 2019 Preliminary Budget that present material differences from the 2018 Budget, including changes in personnel, significant workplan items and capital projects, as well as changes related to policy or regulatory drivers.

We will be working from data produced by Questica, the new budget software approved by Council in 2017. Ultimately, this software will allow us to run scenarios, report data that is tied to strategic goals and give everybody, including community members, greater access to budget information. This new tool will help us make better informed decisions about prioritizing our investments.

Third, in the next few weeks, we will discuss re-authorization of 2018 allocated funds for priority project work that was planned for completion in 2018 but will carry forward to 2019. And we will update the Council on the impacts this will have on the estimated 2018 ending fund balance. This list of reauthorized allocations may not have been as apparent in previous budget presentations.

Fourth, I am proud of the work our Council Ad Hoc Financial Committee completed this year in looking into our capital funding constraints. Their work will feed into your upcoming budget deliberations this year as you discuss funding for those capital projects that were approved in the adopted Capital Improvement Plan for 2019 but did not have identified funding sources, such as the intersection improvements at SE 43<sup>rd</sup> Way and Central Park in the Highlands. The Preliminary Budget before you tonight does not include the impacts of fully funding those projects, and as Council deliberates over those preferred funding scenarios in the next few weeks, we will need to reflect those expenditures in the 2019 Preliminary Budget. This will feel different since we have now moved to a two-year Capital Improvement Plan process.

Fifth, the 2019 Preliminary Budget is all about numbers. In the past, we have spent a good amount of time preparing the introductory and supplemental sections, which provided community profiles and other narrative pieces. The adopted budget, when published, will include most of those pieces so we can have community context when published.

With these slight modifications to the budget deliberation and adoption process, the key elements will remain familiar, to those who have participated in deliberations in prior years.

We will answer questions from councilmembers on any budget item even though we will focus our presentations on items that are significant differences from the 2018 Budget. We will also track proposed Council adjustments to the budget in preparation for a Council vote to adopt the budget, using the budget deliberations spreadsheet from previous years, that will be familiar to those of you that have been part of past budget approvals.

And with that, I would like to share with you the highlights of this year's budget.

First, we are continuing with our technology upgrades. In today's digital age in a region that leads the evolving digital revolution, most of our residents and businesses access information through our website. Yet, we have not had an upgrade since 2012. Our community has told us they want an improved, more intuitive online interface with their government, and we will be investing in those improvements this upcoming year, including a new online Customer Response Management system. I am particularly excited about this project. This new tool will enable our residents and customers to send us requests online and we will be able to tie those requests to mapping and reporting tools, so that the Council and community can view the information on line. In addition, we will enhance our customer service practices to be in direct alignment with this new tool and to help us deliver the best possible responses.

Further, we need to make it simple and convenient for our community to engage and conduct business with the City. For example, our community expects to be able to complete transactions with the City electronically. To meet those expectations, I propose implementing self-service tools in both Utility Billing and Recreation Program Registration.

In tandem with deeper investments in online services, we must also be responsible by investing in more advanced cyber security systems to protect data, infrastructure, and public funds in an age of increasing threats.

The website update, online customer billing opportunities and the investments in cyber security are three of the many technology investments the City anticipates implementing over the next several years to provide the community engagement and customer service the community expects.

Second, I am proposing an investment in staffing resources. The City has not kept pace with the growing service demands, and while there is a significant list of required new positions, I am only proposing those positions this year that can be funded by the limited increase in ongoing revenues. This was probably the hardest part of my teams work this year and I appreciate their cooperation as we worked through the various options and scenarios.

I propose adding five new staffing positions and converting six existing staffing positions. These staff resources will help us take care of our streets and parks, manage our budget, track and analyze our employment costs, fill our vacant positions more quickly, grow our analytical and public reporting capacities, and provide greater environmental protection.

And lastly, following on the good work that has been completed this year with the approved space planning allocation for 2018, we must continue to talk about our future facility needs while maintaining the aging facilities we currently occupy.

We will continue to work on our City's facilities inventory and continue the conversation that has begun this year with Council, on what the near term and long-term facility plan will look like in the years ahead. We have included expenditures in this budget to maintain the facilities we have now, recognizing the Council discussion is not yet complete, and should use restraint on the investments in maintenance next year while recognizing that due to the age of our facilities, we must invest to maintain operations and functionality. The facilities discussion will continue through 2019 and will require Council decisions and direction prior to the development of the next Capital Improvement Plan, which will be under development next year.

The minor facility improvements proposed in this budget includes investments in our two City Halls so that we can more efficiently house our staff, improve security and address code issues. These are short-term improvements that are meant to help us get by. They do not fully satisfy our needs in these facilities. Over the course of the next several months, the Council will also be asked to consider whether longer-term, higher-cost life cycle improvements should be made to City Hall Northwest.

During this year's budget presentations, City staff will also highlight significant items in their 2019 work plans. In particular, they will highlight which items include budget allocations. As the available new revenue and our current staffing levels constrain what we can afford to take on in 2019, we will also highlight projects that are needed or desired but lack a resource plan in 2019. Some of the work plan items that are in the 2019 Preliminary Budget include:

Under Transportation:

- Develop a transportation mobility master plan
- Continue to work on school-based transportation demand management work

Land Use:

- Update the Olde Town land use codes

- Continue work with State Parks on their environmental impact study for Lake Sammamish State Park

#### Financial Sustainability:

- Finalize the strategic plan and its implementation framework
- Update our mitigation and impact fees
- Complete a utility rate study

#### Community and the Environment:

- Develop the healthy community strategy
- Progress on our housing strategies
- Develop wayfinding, park signage and branding
- Conduct urban forest and Green Issaquah planning

#### Facilities:

- Develop a long-term municipal facilities plan and costing

There is much more in the preliminary budget for you to discuss and deliberate, than the highlights I mentioned, but I wanted to touch on some of the high notes before moving on to a couple of other items related to this year's budget.

First, I want to point out that we are not yet complete with our ongoing move to better cost allocation. Last year, Council reviewed a first important step, which was creation of the new IT Fund. Cost allocation is required under state law and is a best practice to ensure charges between funds and departments are justified. While this preliminary budget does not contain any new cost allocation methodologies, we do anticipate that next year we will conduct a review of our Fleet Fund and potentially other areas of operation to ensure we have appropriate cost allocation methods.

Second, during budget deliberations, we are also prepared to make an important recommendation regarding another City program: operations of the Senior Center. It is time that we move out of the interim operations of the Senior Center. Those who use that facility most have expressed a desire to see some stability in place and have shared their satisfaction with how City staff has been operating their programs since taking over. To accomplish this, I recommend that City Council direct staff to install a long-term City-run operational plan for the Senior Center. This addition will need to be added to the 2019 Preliminary Budget and staff is prepared to share a new revenue and expenditure plan that would implement this important policy decision.

To accomplish all of these goals and prepare us for the future, our 2019 Preliminary Budget includes a 3.47% increase in revenue and a less than 1% increase in

expenditures, over the Revised Budget for 2018. The 2019 Preliminary Budget does not require any utilization of the General Fund reserves. 2018 ended with an unaudited, under-expenditure of \$4.4M, which returns to our fund balance and is available for one-time expenses or to carryover as funding in 2019 for incomplete and prioritized 2018 projects.

Currently, our estimated ending fund balance exceeds the maximum range Council established in our Financial Management Policies. Our policies enable City Council to utilize extra fund balance for certain types of expenditures. I am recommending that the Council discuss, during budget deliberations and throughout 2019, its priorities for use of fund balance. In addition to capital and one-time projects, Council could consider establishing a practice of transferring a portion of the balance into capital funds or making start-up funding for new initiatives, such as a neighborhood grant program. These one-time uses of the fund balance have historical precedent in Issaquah and are ways many cities across the country utilize excess reserve funds to create added value for their communities.

The return to fund balance is the result of a number of factors, which we will discuss in greater detail with City Council during the upcoming budget sessions, but I will provide a brief summary for you tonight. Nearly half of the amount is due to personnel cost savings resulting from vacancies. We have much work to do in reducing the time to fill vacancies and will provide Council with more detail during our budget discussions in the next two months about how we will improve on this front. Our ability to fill positions in an expeditious manner has a direct and consequential impact on our ability to complete our work.

During the remainder of the year, I anticipate that Council will continue with community and partnership discussions on projects or proposals that have not yet been thoroughly scoped or framed up, including Transit Oriented Development and open space acquisitions, and may consider potentially using fund balance reserves to pay for those, at the appropriate time next year. There is just not enough information or certainty on any of those opportunities to include them in the 2019 Preliminary Budget before you. However, this does not mean Council cannot act on them during 2019. We just need to be mindful that these projects are in progress and could come forward after the approval of this Budget. We do have opportunities to invest in these new and exciting opportunities.

So, as you explore the detail of the 2019 Preliminary Budget and the totals presented this evening, there are a few items I want to call to your attention that will tee up the 2020 Budget work as we continue to work to link our budget process to our community priorities and to adjust our financial approach to include the long-term impacts of current funding choices.



- Impact of Strategic Planning - In 2019, we will adopt our first citywide Strategic Plan, and we will build a framework that connects the plan to the 2020 Budget and to the Capital Improvement Plan, developing performance metrics and tools that will help us monitor and report progress. I was not able to do that linkage this year with the 2019 Preliminary Budget and am looking forward to this step next year.
- Cost Allocation - We will continue to update cost allocation methods to ensure right-sized charges are being made in the right places and that our funding models are sustainable in the long-term.
- Budgeting Process Improvements - In 2019, we will continue with our budget process improvements as we begin to use our Questica budget tool in new ways, allowing Council and the public to have online access to financial information in time for the 2020 Budget discussions.
- Developing our Long-term Funding Strategies for Operations and Capital Projects - In addition, the Ad Hoc Financial Committee workplan items for next year will include a discussion of how to enhance the City's ability to maintain service levels and infrastructure when current revenue sources do not keep pace with service demands and costs. Also, Ad Hoc will need to continue the discussion of a long-term funding strategy for capital improvements that go beyond just the funding of transportation projects and includes other capital investments in parks, open space, community and municipal facilities.
- Community's Number One Priority - And lastly, because it is a top community issue, next year's transportation efforts will mark a significant step forward for our community. We filled the Senior Transportation Planner position in September (thank you Councilmembers for approving this resource). This position is required to successfully launch the Transportation Advisory Board and the work on the Mobility Master Plan. We will soon make our final recruitment for board members and we have already selected the firm that will assist us with creating the plan.

I say this in my address tonight, because as I have said earlier, I have presented a budget that is restrained in its use of ending fund balance surpluses, even though that balance is in excess of our recommended maximum. As Mayor, I am strongly supportive of expending some of that balance on one-time expenditures, but our priority needs to be the community's number one priority and that is focusing on traffic and transportation. Our community, throughout this strategic plan process and years before, have asked us to deal with these impacts, to use local control to

improve the reality on the ground. It's going to be hard, and it's going to require commitment and boldness. And, I know we can do this together.

I'd like to conclude this evening, by reminding Council that we are in a very good position to move forward with our multi-year overhaul of the budgeting process and efforts to develop a long-range funding strategy.

I am excited about our future and the many ways we will be able to address our challenges and opportunities as a growing, vibrant, diverse and extremely beautiful community: A natural treasure at the edge of a growing urban community.

You have all received my 2019 Preliminary Budget in electronic or hard copy this evening and I see many good nights of intriguing reading there, to be sure. Looking forward to your questions and comments and our first budget session on October 22<sup>nd</sup>.

Thank you for your time and attention.

A handwritten signature in black ink, appearing to read "Pauly" with a stylized initial "M" or "P" at the start.

Mary Lou Pauly, Mayor